GOVERNMENT REFORM AND SAVINGS ACT OF 1993

.RING

BEFORE THE

LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENT OPERATIONS HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

H.R. 3400

TO PROVIDE A MORE EFFECTIVE, EFFICIENT, AND RESPONSIVE GOVERNMENT

NOVEMBER 8, 1993

Printed for the use of the Committee on Government Operations

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GOVERNMENT REFORM AND SAVINGS ACT OF 1993

MONDAY, NOVEMBER 8, 1993

HOUSE OF REPRESENTATIVES,
LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 1:30 p.m., in room 2154, Rayburn House Office Building, Hon. John Conyers, Jr. (chairman of the subcommittee) presiding.

Present: Representatives John Conyers, Jr., Glenn English, and William F. Clinger, Jr.

Also present: Representative Marjorie Margolies-Mezvinsky.

Subcommittee staff present: James C. Turner, staff director; and Cheryl G. Matcho, clerk.

Full committee staff present: Julian Epstein, staff director; Donald F. Goldberg, deputy staff director; Laurie Cody, professional staff member; Carolyn Donnelly, clerk; and Kevin M. Sabo, minority counsel.

OPENING STATEMENT OF ACTING CHAIRPERSON MARGOLIES-MEZVINSKY

Ms. MARGOLIES-MEZVINSKY. The hearing will come to order.

Good afternoon. Today we meet to consider three key management reform proposals that have been put forward by the Vice President's reinventing government initiative.

First, every year government agencies must submit hundreds of required reports to Congress and the OMB. These cumbersome reporting requirements grew out of piecemeal management reforms imposed by Congress and various administrations over the years. The reporting requirements continue even though the needs they deal with may have long since been addressed.

Title XV of H.R. 3400, the Government Reform and Savings Act of 1993, would begin the much-needed process of streamlining management controls. Streamlining management control would simply authorize the Director of OMB to study the proliferation of reporting requirements on all agencies, and propose ways of tripling the number of these reports.

Second, to move into the 21st century, our government needs to make full use of the modern, state-of-the-art financial management systems. We are losing time and wasting money with paper-based transactions in an electronic age.

Title XVI of H.R. 3400, the Federal Financial Management Act of 1993, would begin to bring our government practices in line with

the more efficient financial management of leading parts of the private sector. This proposal would make more efficient the payment of Federal benefits, address Federal financial reporting, and create multiyear funds for certain agency activities.

The third problem we address today is yearend spending. Under current budget practices, there is enormous pressure on government agencies to spend funds at the end of the fiscal year. This use-or-lose rush leads to pressured spending which may not be needed and certainly is not prudent.

Title XVII of H.R. 3400 would end the use-it-or-lose-it rush that hits agencies around September of each year. This proposal would give program managers more flexibility for yearend spending so we can avoid rushed and wasteful spending decisions.

The President and Vice President have demonstrated the kind of leadership the Federal Government must have in order to truly reinvent itself and provide more confidence to the taxpayers. I hope Congress will continue this momentum by passing legislation which will create a more streamlined and efficient government.

I would like to recognize my colleague, Mr. Clinger, first.

[The text of H.R. 3400, title XV, title XVI, and title XVII follows:]

103D CONGRESS
1ST SESSION

H. R. 3400

To provide a more effective, efficient, and responsive government.

IN THE HOUSE OF REPRESENTATIVES

OCTOBER 28, 1993

Mr. GEPHARDT introduced the following bill; which was referred jointly to the following committees for a period ending not later than November 15, 1993: Agriculture, Armed Services, Banking, Finance and Urban Affairs, Education and Labor, Energy and Commerce, Foreign Affairs, Government Operations, House Administration, the Judiciary, Merchant Marine and Fisheries, Natural Resources, Permanent Select Committee on Intelligence, Post Office and Civil Service, Public Works and Transportation, Science, Space, and Technology, Veterans' Affairs, and Ways and Means

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A BILL

To provide a more effective, efficient, and responsive government.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Government Reform and Savings Act of 1993".

SEC. 2. TABLE OF CONTENTS.

The table of contents is as follows:

Subtitle A—Department of Agriculture Reorganization

Subtitle B—Eliminate Federal Support for Wool and Mohair

Subtitle C—Eliminate Federal Support for Honey

TITLE II—DEPARTMENT OF COMMERCE

Polar Satellite Convergence

TITLE III—DEPARTMENT OF DEFENSE

Subtitle A—Create Incentives for the Department of Defense to Generate Revenues

Subtitle B—Closure of the Uniform Services University of the Health Sciences

Subtitle C—Streamline and Reorganize the United States Army Corps of Engineers

TITLE IV—DEPARTMENT OF ENERGY

Subtitle A—Alaska Power Administration Sale Authorization Act

Subtitle B—Federal-Private Cogeneration of Electricity

Subtitle C—Power Marketing Administration Debt Buyout

TITLE V—DEPARTMENT OF HEALTH AND HUMAN SERVICES

Subtitle A—Increased Flexibility in Contracting for Medicare Claims Processing

Subtitle B—Workers' Compensation Data Exchange Pilot Projects

Subtitle C—Federal Clearinghouse on Death Information

Subtitle D—Continuing Disability Reviews

TITLE VI—DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Subtitle A—Multifamily Property Disposition

Subtitle B—Merger of the Certificate and Voucher Programs

Subtitle C—Streamline HUD

Subtitle D—Refinance Section 235 Mortgages

Subtitle E—Section 8 Rents for New Construction and Rehabilitation Projects

TITLE VII—DEPARTMENT OF THE INTERIOR

Subtitle A—Improve the Federal Helium Program

Subtitle B—Improve Minerals Management Service Royalty Collection

TITLE XV—STREAMLINING MANAGEMENT CONTROL

SEC. 15001. AUTHORITY TO INCREASE EFFICIENCY IN REPORTING TO CONGRESS.

(a) PURPOSE.—The purpose of this title is to improve the efficiency of Executive branch performance in implementing statutory requirements for reports to Congress and its committees. Examples of improvements in efficiency intended by this subtitle are the elimination or consolidation of duplicative or obsolete reporting requirements and adjustments to deadlines that will provide for more efficient workload distribution or improve the quality of reports.

(b) AUTHORITY OF THE DIRECTOR.—The Director of the Office of Management and Budget may publish annually in the President's Budget his recommendations for consolidation, elimination, or adjustments in frequency

and due dates of statutorily required periodic reports to the Congress or its committees. For each recommendation, the Director shall provide an individualized statement of the reasons that support the recommendation. In addition, for each report for which a recommendation is made, the Director shall state with specificity the exact consolidation, elimination, or adjustment in frequency or due date that is recommended. If the Director's recommendations are approved by law, they shall take effect.

(c) The Director's recommendations shall be consistent with the purpose stated in subsection (a).

(d) Prior to the publication of the recommendations authorized in subsection (b), the Director or his designee shall consult with the appropriate congressional committees concerning the recommendations.

TITLE XVI—FINANCIAL MANAGEMENT

SEC. 16001. SHORT TITLE.

This title may be cited as the "Federal Financial Management Act of 1993".

Subtitle A—Electronic Payments

SEC. 16101. ELECTRONIC PAYMENTS.

(a) Section 3332 of title 31, United States Code, is amended to read as follows:

"3332. Required direct deposit.

"(a)(1) Notwithstanding any other provision of law, all Federal wage, salary, and retirement payments shall be paid to recipients of such payments by electronic funds transfer, unless another method has been determined by the Secretary of the Treasury to be appropriate.

"(2) Each recipient of Federal wage, salary, or retirement payments shall designate one or more financial institutions or other authorized payment agents and provide the payment certifying or authorizing agency information necessary for the recipient to receive electronic funds transfer payments through each institution so designated.

"(b)(1) The head of each agency shall waive the requirements of subsection (a) of this section for a recipient of Federal wage, salary, or retirement payments authorized or certified by the agency upon written request by such recipient.

"(2) Federal wage, salary, or retirement payments shall be paid to any recipient granted a waiver under paragraph (1) of this subsection by any method determined appropriate by the Secretary of the Treasury.

"(c)(1) The Secretary of the Treasury may waive the requirements of subsection (a) of this section for any group of recipients upon request by the head of an agency under standards prescribed by the Secretary of the Treasury.

"(2) Federal wage, salary, or retirement payments shall be paid to any member of a group granted a waiver under paragraph (1) of this subsection by any method determined appropriate by the Secretary of the Treasury.

"(d) This section shall apply only to recipients of Federal wage or salary payments who begin to receive such payments on or after January 1, 1995, and recipients of Federal retirement payments who begin to receive such payments on or after January 1, 1995.

"(e) The crediting of the amount of a payment to the appropriate account on the books of a financial institution or other authorized payment agent designated by a payment recipient under this section shall constitute a full acquittance to the United States for the amount of the payment.".

(b) The table of sections for chapter 33 of title 31, United States Code, is amended by amending the item for section 3332 to read:

"3332. Required direct deposit.".

Subtitle B—Franchise Funds and Innovation Funds

SEC. 16201. FRANCHISE FUNDS AND INNOVATION FUNDS.

(a) Title 31, United States Code, is amended by adding, after section 1537, a section 1538, as follows:

"§ 1538. Franchise funds

"(a) There is hereby authorized to be established a franchise fund in any executive agency which does not have such a fund which shall be available, without further appropriation action by the Congress, for expenses and equipment necessary for the maintenance and operations of such administrative services as the head of the agency, with the approval of the Office of Management and Budget, determines may be performed more advantageously on a centralized basis.

"(b)(1) The fund shall consist of the fair and reasonable value of inventories, equipment, and other assets and inventories on order pertaining to the services to be provided by the fund as are transferred by the head of the agency to the fund less related liabilities and unpaid obligations together with any appropriations made for the purpose of providing capital.

"(2) For the first fiscal year a fund is in operation and each fiscal year thereafter, an amount not to exceed 4 percent of the total income of the fund may be retained in the fund, to remain available until expended, to be used only for the acquisition of capital equipment and for the improvement and implementation of agency financial management and related support systems.

"(3) For the first three fiscal years a fund is in operation, up to 50 percent of the unobligated balances of

funds provided in annual appropriations available at the end of the fiscal year to the agency for salaries and expenses may be transferred into the fund no later than the end of the succeeding fiscal year.

"(c) The fund shall be reimbursed or credited with payments, including advance payments, from applicable appropriations and funds of the agency, other Federal agencies, and other sources authorized by law for supplies, materials, and services at rates which will recover the expenses of operations including accrued leave, depreciation of fund plant and equipment, and an amount necessary to maintain a reasonable operating reserve, as determined by the head of the agency.

"(d)(1) In the third fiscal year after the fund is established, and each year thereafter, any Federal entity seeking to obtain any service financed through the fund that is not inherently governmental in nature must not be precluded from obtaining such service from one or more other sources, either governmental or non-governmental, in addition to the source finance through the funds.

"(2) If, after the end of the third fiscal year after a fund is established, any Federal entity seeking to obtain any service financed through the fund that is not inherently governmental in nature is precluded from obtaining such service from one or more other sources, either gov-

ernmental or non-governmental, in addition to the source financed through the fund, the fund shall be cancelled.".

(b) The table of sections for subchapter III of chapter 15 of title 31, United States Code, is amended by adding, after the item for section 1537, the following new item: "Section 1538. Franchise Funds.".

(c) Title 31, United States Code, is amended by adding, after section 1538, a section 1539, as follows:

"§ 1539. Innovation funds

"(a) There is hereby authorized to be established an innovation fund in any executive agency which does not have such a fund, which shall be available without further appropriation action by the Congress.

"(b) The purpose of the fund is to provide a self-sustaining source of financing for agencies to invest in projects designed to produce measurable improvements in agency efficiency and significant taxpayer savings. Amounts available in the fund may be borrowed by the agency for such projects, subject to subsection (e).

"(c) Each agency that establishes an innovation fund will develop an investment project selection process, including specific investment criteria such as return on investment, payback period, extent of matching or in-kind support (including such support from other Federal agencies), technical merit, and budget justification.

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"(d) For the first three fiscal years a fund is in operation, up to 50 percent of the unobligated balances of funds provided in annual appropriations available at the end of the fiscal year to the agency (other than appropriations for salaries and expenses) may be transferred to and merged with the innovation fund to be available to make loans to agency components for projects designed to enhance productivity and generate cost savings, provided that such transfers occur no later than the end of the succeeding fiscal year.

"(e)(1) Any amounts borrowed from the fund by an agency component to finance a project selected under the process described in subsection (c) shall be repaid to the fund at the times specified in the repayment schedule agreed upon at the time the loan is made.

"(2) Interest on loans made by the fund shall be paid to the fund at the rate on marketable Treasury securities of similar maturity at the time the loan is made.

"(3) Repayments shall be made from the accounts anticipated to receive the greatest long-term benefit from the project at the time the loan is made.

"(4) Repayments to the fund shall take priority over any other obligation of payments of an account designated to make repayments under paragraph (3) of this subsection.".

(d) The table of sections for subchapter III of chapter 15 of title 31, United States Code, is amended by adding, after the item for section 1538, the following new item:
"Section 1539. Innovation Funds.".

Subtitle C—Simplifying the Management Reporting Process

SEC. 16301. SIMPLIFICATION OF MANAGEMENT REPORTING PROCESS.

(a) To improve the efficiency of Executive branch performance in implementing statutory requirements for general management and financial management reports to the Congress and its committees, the Director of the Office of Management and Budget may publish annually in the President's Budget his recommendations for consolidation, elimination, or adjustments in frequency and due dates of statutorily required periodic reports of agencies to the Office of Management and Budget or the President and of agencies or the Office of Management and Budget to the Congress under any laws for which the Office of Management and Budget has general management or financial management responsibility. For each recommendation, the Director shall provide an individualized statement of the reasons that support the recommendation. In addition, for each report for which a recommendation is made, the Director shall state with specificity the exact consolidation, elimination, or adjustment in fre-

quency or due date that is recommended. If the Director's recommendations are approved by law, they shall take effect.

(b) The Director's recommendations shall be consistent with the purpose stated in subsection (a).

(c) Prior to the publication of the recommendations authorized in subsection (a), the Director or his designee shall consult with the appropriate congressional committees, including the House Committee on Government Operations and the Senate Committee on Governmental Affairs, concerning the recommendations.

Subtitle D—Annual Financial Reports

SEC. 16401. ANNUAL FINANCIAL REPORTS.

(a) Section 3515 of title 31, United States Code, is amended to read as follows:

"§ 3515. Financial statements of agencies

"(a) Not later than March 1 of 1997 and each year thereafter, the head of each executive agency identified in section 901(b) of this title shall prepare and submit to the Director of the Office of Management and Budget an audited financial statement for the preceding fiscal year, covering all accounts and associated activities of each office, bureau, and activity of the agency.

"(b) Each audited financial statement of an executive agency under this section shall reflect—

"(1) the overall financial position of the offices, bureaus, and activities covered by the statement, including assets and liabilities thereof; and

"(2) results of operations of those offices, bureaus, and activities.

"(c) The Director of the Office of Management and Budget shall prescribe the form and content of the financial statements of executive agencies under this section, consistent with applicable accounting principles, standards, and requirements.

"(d) The Director of the Office of Management and Budget may waive the application of all or part of subsection (a).

"(e) Not later than March 1 of 1996, the head of each Executive agency identified in section 901(b) of this title and designated by the Director of the Office of Management and Budget shall prepare and submit to the Director of the Office of Management and Budget an audited financial statement for the preceding fiscal year, covering all accounts and associated activities of each office, bureau, and activity of the agency.

"(f) Not later than March 31 of 1994, 1995, and, for Executive agencies not designated by the Director of

the Office of Management and Budget under subsection (e), 1996, the head of each Executive agency identified in section 901(b) of this title shall prepare and submit to the Director of the Office of Management and Budget a financial statement for the preceding fiscal year, covering—

"(1) each revolving fund and trust fund of the agency; and

"(2) to the extent practicable, the accounts of each office, bureau, and activity of the agency which performed substantial commercial functions during the preceding fiscal year.

"(g) for purposes of subsection (f), the term 'commercial functions' includes buying and leasing of real estate, providing insurance, making loans and loan guarantees, and other credit programs and any activity involving the provision of a service or thing for which a fee, royalty, rent, or other charge is imposed by an agency for services and things of value it provides.".

(b) Subsection 3521(f) of title 31, United States Code, is amended to read as follows:

"(f)(1) For each audited financial statement required under subsections (a) and (e) of section 3515 of this title, the person who audits the statement for purpose of subsection (e) of this section shall submit a report on the

audit to the head of the agency. A report under this subsection shall be prepared in accordance with generally accepted government auditing standards.

"(2) Not later than June 30 following the fiscal year for which a financial statement is submitted under subsection (f) of section 3515 of this title, the person who audits the statement for purpose of subsection (e) of this section shall submit a report on the audit to the head of the agency. A report under this subsection shall be prepared in accordance with generally accepted government auditing standards.".

Subtitle E—Strengthening Debt Collection Programs

SEC. 16502. CONTRACTS FOR COLLECTION SERVICES.

(a) Subsection 3701(d) of Title 31, United States Code, is amended—

(1) by striking "and 3716–3719" and inserting in lieu thereof ", 3716, and 3717"; and

(2) by striking ", the Social Security Act (42 U.S.C. 301 et seq.),".

(b) Section 3701 of title 31, United States Code, is amended by adding at the end the following:

"(e) Section 3718 of this title does not apply to a claim or debt under, or to an amount payable under, the Social Security Act (42 U.S.C. 301 et seq.) owed by a person receiving benefits under that Act or to a claim or debt under, or to an amount payable under, title 26 of the United States Code.".

SEC. 16503. NOTIFICATION TO AGENCIES OF DEBTORS' MAILING ADDRESSES.

Section 3720A of title 31, United States Code is amended by striking "the individual's home address." at the end of subsection (c) and inserting the following: "the person's mailing address. Provision of this information is authorized by section 6103(m)(2) of the Internal Revenue Code (26 U.S.C. 6103(m)(2)).".

Subtitle F—Improving Department of Justice Debt Collection

SEC. 16602. CONTRACTS FOR COLLECTION SERVICES.

Subparagraph 3718(B)(1)(A) of title 31, United States Code, is amended by striking the following: "If the

Attorney General makes a contract for legal services to be furnished in any judicial district of the United States under the first sentence of this paragraph, the Attorney General shall use his best efforts to obtain, from among attorneys regularly engaged in the private practice of law in such district, at least four such contracts with private individuals or firms in such district.".

Subtitle G—Adjusting Civil Monetary Penalties for Inflation

SEC. 16701. ADJUSTING CIVIL MONETARY PENALTIES FOR INFLATION.

The Federal Civil Penalties Inflation Adjustment Act of 1990 is amended by—

(1) amending section 4 to read as follows: "The head of each agency shall—

"(1) by regulation, no later than September 30, 1994, and at least once every 4 years thereafter, adjust each civil monetary penalty provided by law within the jurisdiction of the Federal agency, except for any penalty under title 26, United States Code, by the inflation adjustment described under section 5 and publish each such adjustment in the Federal Register; and

"(2) provide a report to the Secretary of the Treasury by November 15 of each year on all penalties adjusted during the preceding fiscal year.";

(2) amending subsection 5(a) by striking "The adjustment described under paragraphs (4) and (5)(A) of section 4" and inserting "The inflation adjustment"; and

(3) adding, after section 6, a section 7, as follows: "Section 7. Any increase to a civil monetary penalty resulting from this Act shall apply only to violations which occur after the date any such increase takes effect.".

TITLE XVII—YEAR-END SPENDING

SEC. 17001. YEAR-END SPENDING.

Section 1301 of title 31, United States Code, is amended by adding the following new subsection at the end:

"(e) Not to exceed 50 percent of unobligated balances remaining available at the end of one fiscal year from appropriations made available for salaries and expenses made for that year shall remain available through September 30 of the following fiscal year for each account for the same purposes. Not to exceed 2 percent of the funds so carried over may be used to pay cash awards to employ-

ees, as authorized by law, and not to exceed 3 percent of the funds may be used for employee training programs.".

Mr. CLINGER. Thank you very much, Madam Chairman.

I would like to join in welcoming Phil Lader and the staff before the subcommittee.

Management of the Federal Government is a primary responsibility of this committee and I always look forward to substantive discussions of how we can make it work better and more efficiently and be more productive, and use the people's resources as efficiently as we can.

While my first impression of the recommendations are that they are very sound, I am troubled by a couple of issues.

As you know, Mr. Lader, the administration was required to submit a report to Congress on the costs and benefits associated with the financial statement pilot projects. The report was due some time ago, and yet we have not seen whether it is on its way or not. So I appreciate your attention to that issue.

Second, when the Vice President released his National Performance Review recommendations, he stated Congress would receive a series of monographs providing greater detail and explanation of the reinventing government recommendations, as, again with the mandatory CFO Act report, these monographs seem at least thus far to be missing in action.

So while I am generally supportive, and I would say very supportive of your financial management reforms, I think we are finding it a little difficult to argue in support of these recommendations if we are not provided with the requested supporting documents.

I hope that in your testimony, Phil, you will explain to the subcommittee why these statements have yet to be submitted and why we should approve a government mandate like this without a thorough review of how the pilot projects have performed to date.

I would also like to insert into the record a letter I received in support of the mandatory governmentwide financial statements. This letter suggests that the business community, which has for years been required to prepare audited financial statements, stands squarely behind this legislation.

[The prepared statement of Mr. Clinger and the letter referred to follow:]

ONE HUNDRED THIRD CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT OPERATIONS

2157 Rayburn House Office Building

Washington, DC 20515-6143

STATEMENT OF HONORABLE WILLIAM F. CLINGER, JR.
Ranking Minority Member
Committee on Government Operations
November 8, 1993

Thank you, Mr. Chairman.

I, too, join my colleague Al McCandless in welcoming Phil Lader and his staff before our subcommittee. The effective management of the Federal government is a primary responsibility of this committee and I always look forward to substantive discussions on how we can improve the management of the people's resources.

While my first impressions of the Clinton Administration's recommendations are that they are sound, I am troubled by a couple of issues. First, as you know, Mr. Lader, the Administration was required by the Chief Financial Officers Act to submit a report to Congress on the costs and benefits associated with the financial statement pilot projects. That report was due some time ago, yet we see no sign that it is own its way.

Second, when the Vice President released his National Performance Review recommendations, he stated that Congress would receive a series of monographs providing greater detail and explanation of the reinventing government recommendations. As with the mandatory CFO Act report, these monographs seem to be missing in action.

While I am generally supportive of your financial management reforms, we are finding it a bit difficult to argue in support of your recommendations if you fail to provide us with the requested supporting documents. I hope that in your testimony, Mr. Lader, you will explain to the subcommittee why the required report on governmentwide financial statements has yet to be submitted, and why we should approve a governmentwide mandate like this without a thorough review of how the pilot projects have performed to date.

I would also like to insert into the record a letter I received from the private sector Financial Executives Institute in support of the mandatory, governmentwide financial statements. This letter suggests that the business community, which has for years been required to prepared audited financial statements, stands squarely behind this legislation.

FINANCIAL EXECUTIVES
INSTITUTE

November 3, 1993

The Honorable William Clinger
Ranking Minority
House Government Operations Committee
Washington, DC 20515

Dear Congressman Clinger:

On behalf of Financial Executives Institute (FEI), I am writing to voice the Institute's strong support for the provision contained in the Government Reform and Savings Act of 1993 that requires the annual preparation of audited financial statements throughout all departments and agencies covered by the Chief Financial Officers Act of 1990.

Financial Executives Institute is a professional association of 14,000 senior financial executives from some 8,000 companies throughout the United States and Canada. Through its technical committees, FEI formulates positions on a wide range of economic, tax, and employee benefits-related issues of concern to American businesses.

As senior financial executives, we have long recognized the strategic value financial statements provide as the sound foundation for budgeting. Consolidated financial statements by corporate operating entities become the basis for effective budgeting as a management process in which senior executives, supported by their financial staffs, compare actual past performance to budget and to plan activities and programs for the future.

It is difficult to imagine an effective budgeting procedure which does not include regular comparisons between the budget and actual results, together with a mechanism to initiate corrective actions with an objective to ensure that plan performance is achieved. Without timely audited financial statements, it would be difficult, if not impossible, to identify discrepancies between budgeted and actual performance and to take corrective actions.

The Honorable William Clinger
Banking Minority
House Government Operations Committee

November 3, 1993
Page 2

We view the requirement for audited financial statements as a necessary first step toward strengthening the financial management of the federal government and meeting the mandates of the CFO Act. It is essential, however, for Congress to continue to demonstrate a sincere commitment to financial management reform by demanding the implementation of all aspects of the Chief Financial Officers Act.

Again, let me state our strong support for this important provision requiring annual audited financial statements. I would be pleased to discuss further with you at any time FEI's position on federal financial management reform.

Sincerely,

PNR/er

Mr. CLINGER. So I would ask unanimous consent that that might be inserted in the record. And if I might at the same time ask unanimous consent that a statement by the ranking member of the subcommittee, Mr. McCandless, might also be submitted.

Ms. MARGOLIES-MEZVINSKY. Without objection, so ordered.

[The prepared statement of Mr. McCandless follows:]

STATEMENT OF HONORABLE AL McCANDLESS
Ranking Minority Member
Legislation and National Security Subcommittee
November 8, 1993

Thank you, Mr. Chairman.

I want to welcome Mr. Phil Lader, the Deputy OMB Director, to our subcommittee along with members of his staff. Given the relatively short period of time that our committee is being given to consider the Clinton Administration's deficit reduction recommendations, I certainly look forward to your explanation of the legislation before us today.

Let me also express my disappointment, however, at the relative small size of this deficit reduction effort. While no doubt many of your recommendations are sound management reforms, I had hoped last spring during our tax raising exercise that when the President pledged to submit a deficit reduction package this fall, he would propose more substantial cuts than those before Congress today.

This package, along with proposed spending cuts pending before the Appropriations Committee, will reduce the deficit by only about <u>ten to eleven billion dollars</u>. Over the next five years, the Clinton Administration proposes spending about <u>ten trillion dollars</u>, yet despite the public's demand for deficit reduction, we can only see fit to reduce spending by one tenth of one percent.

Nevertheless, the package before us today calls for reforms in the management practices of the Federal government. That is certainly a prime responsibility of this committee. I look forward to hearing Mr. Lader's testimony.

Ms. MARGOLIES-MEZVINSKY. I look forward to your testimony, and I look forward to working with you to accomplish real management reform.

Mr. Lader brings to the job of Deputy Director for management at the Office of Management and Budget many years of private-sector management experience. He has used that experience quite a bit during the past months as one of the administration's lead people on the National Performance Review.

He is accompanied by Mr. Hal Steinberg, who is Acting Controller of the United States.

Mr. Lader, Mr. Steinberg, welcome. We look forward to your testimony.

STATEMENT OF PHILIP LADER, DEPUTY DIRECTOR FOR MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET, ACCOMPANIED BY HAROLD I. STEINBERG, ACTING U.S. CONTROLLER

Mr. LADER. Thank you for the opportunity to come today. I want to thank all the members of your staff who have been helpful to us at OMB, and also express to you my appreciation for the staff of the Office of Federal Financial Management, some of whom are represented by the group sitting behind me, and the work they have done.

Hal Steinberg is no stranger to you and your staff. He spent 30 years with Peat Marwick as a CPA; and during the Reagan administration, he actually held one of the predecessor positions to mine. I am delighted that, as a career civil servant and as Deputy Controller of the Office of Federal Financial Management, he can be here to help out today.

Let me ask, Madam Chair, if my statement might be entered into the record. I would like to summarize it in brief.

Ms. MARGOLIES-MEZVINSKY. Yes, your prepared statement will be entered into the record. Thank you.

Mr. LADER. Thank you.

There are two foundations to my comments and my responses to your questions today. The first, to which you have referred already, is the study completed by the Vice President and the National Performance Review, "From Red Tape to Results," known as "Creating a Government That Works Better and Costs Less," the NPR report.

But of equal and more basic importance is the CFOs Act, which underscores most of the recommendations which we will be addressing today. And so it is in the context of both this contemporary progressive work and the bedrock of financial management, the CFOs Act, that this legislation has been proposed to you.

As I mentioned to this committee, to the full committee, about 2 weeks ago, there has been a management and technological revolution, which has transformed everyday life in this country: When we go to grocery stores and see bar codes and scanners, when we bank through touch-tone telephones in our home, when we invest through thousands of mutual funds as well as the traditional investment vehicles, we see how this management and technological revolution has transformed everyday life for Americans. But it has left virtually untouched the actual financial operations of the Fed-

eral Government. And that is what this legislation is seeking to address.

The Government Reform and Savings Act of 1993 represents the first wave, and I emphasize the first wave, of legislative proposals coming from the National Performance Review. First, in promoting electronic government, which we believe to be the essence of dragging the Federal Government into the 1990's, if not the 21st century, one of the elements of this legislation is that all new Federal employees and new retirees receive their salary and retirement benefits payments through electronic funds transfer. Eventually we would like to expand the use of EFT even further, but we believe this is a basic start.

This bill also facilitates investments in improved financial management systems. As you are aware, the 23 largest agencies use more than 800 separate financial management systems to support these functions. Thirty percent of these systems are more than 10 years old. Their technology is antiquated; their maintenance costs, high. What we are seeking here is to drag this system or these combinations of systems into more contemporary technology.

To help make this possible, two innovations are proposed as funding devices: franchise and innovation funds. But they have a common nature, that is, to provide seed capital for various types of innovation, including improved financial management.

The franchise funds under this act allow the agencies to improve their administrative service functions, and to offer on a competitive basis to other agencies those services at negotiated, market-driven prices. In other words, agencies can determine what they are especially good at, and provide those services on a franchise-like basis.

The Department of Agriculture today produces many other agencies' payrolls covering more than 500,000 individuals. The customer agencies, in turn, get to choose from a variety of service providers and every government agency doesn't have to reinvent the wheel of developing state-of-the-art systems for that particular service. It is a free-market-driven effort amongst the agencies. Customer agencies can choose among the systems that provider agencies choose to develop.

Parallel to this would be the innovation funds. Under this act, the innovation funds would provide funding for special projects, not just financial management, but all designed to improve the efficiency and the service delivery to agency customers, therefore leading to taxpayer savings.

The best example I can give of that today is CAIVRS. You are well aware of what we have done, and I appreciate the Washington Post coverage of this recently. HUD has undertaken to provide background data on creditworthiness of those seeking additional funds and guarantees from the Federal Government to see what outstanding delinquencies there might be.

The key message on this is that, if HUD had access to an innovation fund such as this act is proposing when CAIVRS was first proven 7 years ago, it might have been expanded governmentwide 5 years earlier. This is the type of expedited implementation of financial management practices which we seek.

The next major topic is increasing accountability to the public. As you are aware, audited financial statements are required, but only

a fraction of the total operations of the Federal Government are now included. We want to move from about 60 percent to a much higher percentage of the activities in the 23 CFOs Act agencies.

We are not here to worship at the altar of audited financial statements, but we are suggesting that the audited financial statement is a useful, proven, private-sector device for accountability. And that is what we seek.

So when we are preparing budgets in the next year, one can really see how the money was spent in the previous year. One can determine, if you will, the extent to which dollars, and the obsession on input, are leading to results and performance.

One out of four 1991 financial statements had so many weaknesses and inadequate records as to be unauditable. If we are to hold the Federal agencies accountable for performance, we must move much more rapidly to broader audited financial statements. That is another major objective of this bill.

We are not seeking legislation at this time requiring governmentwide audited financial statements. That is a very complicated process, and we must learn to walk before we run. But this is the foundation, an expansion to agencywide statements, in the CFO agencies.

Madam Chair, you referred to streamlining the financial reporting process. This has become extraordinarily burdensome to all executive branch agencies. This would allow OMB to recommend to Congress the revision and streamlining of many of the financial management reports which are submitted to Congress.

In no way is this an effort to reduce the meaningful data provided to the Congress for your review of executive agency performance. But this act seeks a way in which we can consolidate these reports to save you time and to save vast amounts of time in the agencies.

Another matter which is very much dear to my heart is collecting money. At the end of fiscal year 1992, the government had delinquent nontax receivables on its books totaling $47 billion. That represents $7 billion, or an 18 percent increase in just 3 years. Defaulted debt represents a loss of taxpayer dollars. But many agencies have too scarce resources, or too little emphasis, to fund more intensive collection efforts.

This legislation would authorize appropriations of up to 1 percent of all delinquent debt collections and up to 10 percent of the sustained annual increases in delinquent debt collection for the agencies to enhance their debt collection activities.

The easiest money to go after is the money you are owed. And what we seek to do is create an incentive and more resources, with no new dollars overall for agencies, to reinvest in enhancing their debt collection efforts.

As a parallel to this, this legislation seeks to remove current restrictions on some agencies which keep them from hiring private collection agencies. This would particularly benefit Customs and HHS.

The Federal Government right now does not collect over half of the civil monetary penalties it is owed. And that, of course, weakens the environmental, health, and safety regulations. There are many efforts to improve this collection already. But this act would

also require inflationary adjustments to the statutorily established civil monetary penalty rates. It only is common sense, I believe, that we adjust these monetary penalties consistent with inflation.

And so I conclude, as a package, this Federal Financial Management Act of 1993 will lead to increased use of electronic government, improvements in financial management information systems, increased accountability, streamlined reporting, and the collection of more money that is owed to the government. We think this will benefit taxpayers and will be a big step in this reinvention process.

Mr. Clinger, if I might refer to your two specific questions, the first, as to the audited financial statements benefits-and-costs report. The preliminary report, I am informed, was submitted in June. The final report is currently being screened and reviewed, vetted internally right now, and I believe we had permission to wait until the fall to submit the final report. So that is on the way.

As to the monographs, the extensive effort to move a governmentwide, executive branchwide reform effort into this report led to the monographs being held aside. The Vice President, however, has authorized these monographs, MIAs, as you referred to them, to be released after they are screened for prose and the like. They are still working papers. So in the coming months they will be released, and we hope that will be accelerated.

Madam Chair, thank you for this opportunity.

[The prepared statement of Mr. Lader follows:]

TESTIMONY

OF

PHILIP LADER

DEPUTY DIRECTOR FOR MANAGEMENT

OFFICE OF MANAGEMENT AND BUDGET

BEFORE THE

SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY

OF THE

COMMITTEE ON GOVERNMENT OPERATIONS

UNITED STATES HOUSE OF REPRESENTATIVES

ON

FEDERAL FINANCIAL MANAGEMENT ACT OF 1993

NOVEMBER 8, 1993

Thank you Mr. Chairman and members of the Subcommittee for the opportunity to testify on behalf of the Federal Financial Management Act of 1993. This Subcommittee's interest in federal financial management issues is greatly appreciated. Indeed, the full Committee's leadership was instrumental in passage of the Chief Financial Officers (CFOs) Act of 1990. The CFOs Act provides the infrastructure for improved financial management in the Federal Government, and will play a central role in creating a Government that "works better and costs less."

The Government Reform and Savings Act of 1993 represents the first wave of legislative proposals needed to implement the recommendations of Vice President Gore's National Performance Review (NPR). Title XVI of the Act is the Federal Financial Management Act of 1993.

The Vice President's report strongly supports intensified efforts to implement the CFOs Act and fundamentally reform the way the Federal Government conducts its business. The stakes are high, with billions of taxpayer dollars at risk due to problem-plagued financial operations, such as inadequate systems. Today, for example, 14 of the largest agencies have financial systems on the OMB High Risk List, which monitors the most flagrant cases of weak financial management. In some cases, agencies are adversely affected by rules that inhibit good financial management practices. This Act is designed to remove such roadblocks and

provide systems and other tools that facilitate good financial management.

Following the financial management themes of the NPR report, our proposal supports promoting electronic government, improving financial management systems, increasing accountability to the Congress and the public, streamlining the financial reporting process, and collecting more of the money that is owed to the Federal Government.

Promoting Electronic Government

The Act would promote efficiencies through electronic government. It would ensure that we make payments in the most economical manner: direct deposit of payments by electronic funds transfer (EFT) rather than by printing, sorting, and mailing paper checks. With EFT, the costs of lost and stolen paper checks are eliminated, as are the costs of processing cancelled checks.

The proposal is to require that all new federal employees and new retirees receive salary and retirement payments, respectively, through EFT. This is a significant step towards providing modern electronic government services. Eventually, we would like to expand the use of EFT even further.

Improving Financial Management Systems

The Act would facilitate investments in improved financial management systems. The 23 largest agencies use over 800 computer systems to support their financial management functions. Thirty percent of these systems are over 10 years old, with antiquated technology and high maintenance costs. One of every three of the Federal Government's financial systems can not comply with OMB's and Treasury's reporting requirements.

Agencies are currently planning replacements or upgrades for almost half of the existing financial management systems, and will need appropriate funding. The NPR report called for funding mechanisms to aid agencies in establishing projects that will provide better services at lower costs. Our proposal provides two funding mechanisms -- franchise funds and innovation funds -- which allow agencies to use existing resources as "seed capital" for new projects.

Franchise funds established under the Act would allow agencies to consolidate and improve administrative service functions, and to offer services on a competitive basis to other agencies at a negotiated, market-driven price. For example, an agency with an antiquated computer system could purchase a new system with franchise funds, and recover those costs by charging fees to agency customers of the new system. Customer agencies,

in turn, choose from among a variety of service providers, and do business with the one that provides the best service for the best value.

Innovation funds established under the Act would provide funding for special projects designed to improve efficiency and service delivery to agency customers, leading to taxpayer savings. Innovation funds could be used as vehicles for interagency projects. Take for example HUD's credit screening system (CAIVRS) that is in the process of being expanded. The system contains delinquent debtor information from the major credit agencies and is being used to prevent loan applicants already delinquent on Federal debt from obtaining new Federal credit. Preliminary estimates show that HUD and VA will save approximately $280 million annually by preventing these defaulted debtors from obtaining new loans. If HUD had access to an innovation fund when the system was first proven seven years ago, it might have been expanded government-wide as early as five years ago.

Increasing Accountability to the Public

We are proposing expansion of the requirement for audited financial statements to all agency operations in the 23 CFOs Act agencies. Audited financial statements result in the identification of systemic control problems that must be corrected and provide assurances that taxpayer dollars are being

accounted for appropriately. Our proposal would require annual agency-wide audited financial statements beginning with FY 1996.

Currently, only 60% of gross budget authority is audited at the agency level. <u>One out of four 1991 financial statements had so many weaknesses and inadequate records as to be unauditable</u>. Of the remaining three-quarters, most received qualified, adverse, or worse yet, no opinions. The efficacy of the financial statement preparation and audit process has been shown through improvements made in agencies that have issued audited financial statements for many years (the Social Security Administration and the Department of Labor, to name two). The need for agency audited financial statements is made even more apparent when the size of federal agencies is considered. Most of them are larger than Fortune 50 companies, some with cash flows in the hundreds of billions of dollars.

We are not seeking legislation requiring a government-wide audited financial statement at this time. Our proposal, however, would provide the foundation for the type of comprehensive financial statements recommended in the NPR report.

<u>Streamlining the Financial Reporting Process</u>

This Act would streamline the burdensome financial reporting requirements for federal agencies. It would allow the Office of Management and Budget to recommend to the Congress the revision

and streamlining of many of the financial management reports that are submitted to Congress. Many separate reports can be simplified and combined for more effective reporting. These moves are intended to save time and money, and allow agencies to redeploy their scarce resources to more crucial management tasks.

Collecting More Money Owed to the Federal Government

The Act has several provisions for improving the collection of receivables. At the end of fiscal year 1992, the government had delinquent non-tax receivables on its books totaling $47 billion, representing a $7 billion or 18% increase in just three years. Defaulted debt represents a loss of taxpayer dollars, yet many agencies' resources are too scarce to fund more intensive collection efforts. Our proposal would authorize appropriations of up to 1 percent of all delinquent debt collections and up to 10 percent of sustained annual increases in collection of delinquent debt for agencies to enhance debt collection activities.

Another provision supporting debt collection activities would remove current restrictions on some agencies that keep them from hiring private collection agencies. This will provide more effective collection mechanisms for the Customs Service and the Department of Health and Human Services (HHS). The fees charged by the private collection agencies can be paid out of the amounts

recovered. Private collection agencies would not be used to pursue debts of anyone who is on the beneficiary rolls at HHS.

In 1992, agencies reported $5.8 billion in claims referred to the Justice Department for litigation. Because debt collection litigation is expensive, our proposal would require a ten percent surcharge on all civil money judgments and settlements to fund debt collection activities at the Department of Justice. At the discretion of the Attorney General, the Act would also allow reimbursement to other agencies for assistance in debt collection activities.

The Federal Government does not collect over half of the civil monetary penalties it is owed, thus weakening enforcement of environmental, health, and safety regulations. Efforts to improve collection of these debts are already underway. The Act would also require inflationary adjustments to statutorily-established civil monetary penalty rates. This indexing would ensure that the deterrent effect of federal penalties do not diminish over time.

Conclusion

Those are the major provisions of our proposal. As a package, the Federal Financial Management Act of 1993 will lead to increased use of electronic government, improvements in

financial management information systems, increased accountability, streamlined reporting, and the collection of more money that is owed to the Government. All of this will benefit the taxpayers, and is a big step towards reinventing the Federal Government.

We encourage early passage of this legislation so that it could have a positive effect on the FY 1995 budget process. I look forward to working with your Committee on these important financial management issues.

Ms. MARGOLIES-MEZVINSKY. Thank you. I have some questions for you, and then I am sure Mr. Clinger has some questions.

With regard to direct deposits, subtitle A, the current proposal would require the new and retired Federal employees receive their wages by direct deposit. Would the administration support adding current employees to this requirement?

Mr. LADER. Let me correct in a minor way your statement. This would require them to do so but give them the opportunity to waive that requirement. Any individual submitting in writing his or her request to be paid with the traditional check rather than electronic transfer, would have that right. And certain groups might be able to be waived en masse by the head of the agency.

The bottom line to this is it costs about 36 cents per check for processing such payments. Handling this transfer electronically would allow it to be done for 6 cents.

We believe there is a culture change to occur here. So while the administration is open to Congress' wisdom on how quickly we should be moving the Federal work force and Federal retirees, we felt that walking before running, in this broad sense, is the best way to approach it, that is, to get the new people entered into the system. That would phase in electronic payments over a reasonable period of time.

Ms. MARGOLIES-MEZVINSKY. Thank you.

With regard to the audited financial statements in subtitle D, do you know when OMB will submit its report to the Congress on the costs and benefits of producing and auditing statements currently required by the CFOs Act?

Mr. LADER. Yes, the preliminary work has been submitted, and I will ask Hal to confirm the statement I had made that we believe that is in its final screening process internally.

Mr. STEINBERG. Yes, the report is written and we actually put it into clearance last week. It is a matter of expediting the clearance within OMB, and I think we can do that.

Ms. MARGOLIES-MEZVINSKY. Do you know how much has been spent in preparing and auditing financial statements?

Mr. STEINBERG. There are two ways to look at that. The agencies right now have to prepare financial statements. It is required just to be able to know where they stand to make sure they don't overspend the budget and so forth. The amount that is spent governmentwide on establishing accounting and reporting standards; processing payments to employees, vendors, and others; recording financial information; maintaining financial records; and preparing financial statements is about a billion and a half a year by the 23 CFO Act agencies.

We did ask them, though, for what has been the cost in preparing the statements, in a form that would be more amenable to decisionmaking by management and by Congress, and for auditing the statements to assure reliability, and that number is about $97 million.

Ms. MARGOLIES-MEZVINSKY. Can you determine how much money has been saved?

Mr. STEINBERG. It is hard to put a price on the savings you get from better decisions and more reliable information. I think that is the result.

Mr. LADER. Madam Chair, if I might answer in a different way, the title of this report, "Creating Government That Works Better and Costs Less," suggests, I think, an appropriate response. It is not "costs less" first. It is "works better" first.

An essential ingredient to effective management is financial controls. And consequently, although I believe one could statistically find a variety of enormously persuading results suggesting the savings to taxpayers of improved financial controls, these controls also will help management work better. So it is not only saving money, and we could get any set of savings numbers using various criteria, but we believe it is also essential to improving management to institute and expand these financial management controls.

Ms. MARGOLIES-MEZVINSKY. Let's backtrack a little. What has been the principal benefit of requiring Federal agencies to produce financial statements?

Mr. LADER. What has been the requirement?

Ms. MARGOLIES-MEZVINSKY. What has been the principal benefit?

Mr. LADER. The principal benefit at this point is to find both errors in reporting and errors in assumptions. For example, the audit process for the Internal Revenue Service's financial statement revealed an overstatement of delinquent tax receivables of 50 percent or $10 billion that was recognized as uncollectible and written off. That is the type of misinformation that might not be detected without an audit.

In addition to that, audits provide the discipline whereby all the bureaus and agencies have to use common accounting policies that lead to one snapshot of the financial picture of the agency. So another bottom line improvement that is required by the audited financial statement is consistent presentation of the various ways we explain the expenditures of money.

Ms. MARGOLIES-MEZVINSKY. Thank you.

With regard to the franchise and innovation fund, subtitle B, in order to ensure the solvency of funds, the legislation states repayment to the funds hold the highest priority. Is this appropriate?

Mr. LADER. We believe it is for this reason. In order to have budget discipline, the funds which will be loaned by the innovation funds to the new effort should be treated much like a third party loan; and to hold the budget discipline, those funds must be repaid. Just as in the private sector, one has to meet one's creditors' needs and repay loans before you get on with other improvements or other expenditures, we believe it is necessary in the public sector for budget discipline. And that is something, with OMB continuing the review, we think holds the agencies accountable for these innovation funds.

Ms. MARGOLIES-MEZVINSKY. Let me ask you specifically, say if we subscribe to the franchise fund, does payment from WIC to the Department of Agriculture take a higher priority than nutrition assistance to women and children?

Mr. LADER. I have one answer. I will let Hal talk about this.

Mr. STEINBERG. I think it would be pretty hard not to make those beneficiary payments when all is said and done. And I think it is that we are trying to send a message that when you borrow moneys from these innovation funds to start new projects, that you just can't forget about it, that you do have a responsibility to meet

the objectives, to meet your commitments, and carry them out. But it would be pretty hard not to pay those beneficiaries, or salaries.

Mr. LADER. Another way of stating it, these are not to be considered grants made by the funds. They are loans by the funds to the specific programs. And yet, as in any type of loan program, countervailing considerations, policy considerations would be taken into account by the agency head, with OMB's review.

Ms. MARGOLIES-MEZVINSKY. Currently no restrictions exist to account for differences among various agencies. Agencies with large numbers of personnel and high salaries and expense accounts, such as USDA and DOD, could have greater flexibility in creating their own discretion and flexibility.

Would the administration support establishing a pilot program to perhaps first test these proposals?

Mr. LADER. A pilot would not be unacceptable to us, but we believe the mechanisms that have been built in for accountability would be sufficient to let this work. We also believe that there is a high correlation—not a precise correlation but a high correlation—between the availability of funds and the size of the agencies and their need for particular innovations.

So we believe that the methodology proposed in the legislation would be sufficient, there would not be a need for a pilot. But we are not closing our mind to that.

Ms. MARGOLIES-MEZVINSKY. With regard to simplifying the management reporting process in subtitle C, would the administration support strengthening the section on simplifying the management reporting process by perhaps providing the Director of OMB the authority to direct a 2-year pilot program experimenting with consolidating financial management reports and reorganizing the dates that reports are due?

Mr. LADER. We would be happy to consult with the members of this subcommittee and the full committee and your staff to explore that as one option. We would very much want to consult with the agencies to determine how they are impacted by this as part of this process.

We would hope nonetheless that we could be moving this legislation quickly, and if we do need to confer on that option, that in no way would impede the progress of this legislation. I think the objective of what you stated is consistent with the objective of the bill as we have proposed it.

Ms. MARGOLIES-MEZVINSKY. Thank you.

Mr. Clinger.

Mr. CLINGER. Thank you, Madam Chair, and thank you, gentlemen, for your testimony.

Let me just say at the outset that I am delighted on the emphasis the administration is placing on the management part of OMB. I think that is something to be applauded, and I am very complementary of the job you are doing in this regard.

The reason I had some concern about the costs and benefit report, and I am delighted to hear that its delivery is imminent and that we will have that resource available to us, is because in this legislation you are asking that this requirement be applied governmentwide. I think we really need to have a sense of how these pilot projects have gone before it goes governmentwide. I guess that was

the concern I had, that we ought to have access to the report and be able to take it into account as part of this legislation.

We have now had 3 years' experience with the Chief Financial Officers Act, and it has been my observation that there is a certain inconsistency in how that act has been implemented government-wide. From agency to agency there are inconsistencies that exist. Some agencies, I am advised, have apparently even refused to restructure their financial management operations from previous practices to fully conform with the law.

We all know it is difficult to affect change, and people are used to doing things one way and they are going to be used to doing things that way. Maybe they have to be hit in the nose with 2 by 4's to get their attention.

In light of that and in light of the fact that we are trying to achieve some uniformity and consistency across government, in your mind, Phil, is there any reason why any government organization should not have a chief financial officer structure such as we provide in the CFOs Act?

If we are really looking for uniformity and consistency, is there any basis on which you would exclude any government organization from the requirements of the act?

Mr. LADER. Based on my just 10 months' experience focusing on this, while I would say there is no reason to exclude any government organization from the application of a CFO concept, I also want to be quick to say that in this huge governmental structure, with all kinds of different missions involved, agency by agency, to have one cookie-cutter approach that applies to every Department or agency is not in the best interest of the American taxpayers. So for that reason, the CFOs Act provides what I believe to be a very useful framework.

But for us to say we must follow it to the letter in every case, at every moment, would not take into account the fact that we have in a few Departments, where there are very excellent deputy CFOs, for example, and a need for the CFO to have some additional responsibility.

So there are reasons, I believe, that one patterns the CFO structure based on the background and the interests of the leadership of each Department, and the mission of that Department, but still adhering to the basic framework of the CFOs Act.

Mr. CLINGER. I think I can agree with that. I think you would agree with me, though, that you are attempting to achieve the same objective. How we reach that in any given entity of government, you are right, there probably needs to be some flexibility there to achieve that objective. But don't we need to have a basic CFO structure as an objective at least in every government entity?

Mr. LADER. Very much so, yes, sir.

Mr. CLINGER. I guess this is more of a statement than a question. Last week I wrote you to determine the administration's position on the section of the bill that we reported out of here last week, on the EPA Cabinet-level elevation. We included in that a provision to impose a performance review, performance management review on the EPA, which it seems to me is at some variance with what is contained in S. 20, where we say we are going to have

a very methodical way of implementing this to make sure it works right.

Here we have basically said, with EPA we are going to kind of throw the S. 20 requirements over and immediately impose this performance measurement criteria on EPA.

Our feeling was in S. 20 that was the way we should be going, that we are talking about a change in basically evaluating agency effectiveness, that we needed to do that in a careful way. In the EPA bill we have kind of truncated that and said, We are going to impose it right away. Does that cause you any problem?

Mr. LADER. I have only given casual and personal attention to the situation you have raised. If it were my druthers, I would support the S. 20 gradualist pilot approach to performance measures. It is a very radical approach to holding agencies accountable to performance, at least in the context of the usual operations of this government.

At the same time, the elevation of the EPA is of such enormous importance to this administration that any specific applications of S. 20 which may be helpful or necessary to accomplish that elevation certainly can be consistent with our overall S. 20 objectives.

Mr. CLINGER. Can you tell us how many CFO positions are still vacant in the agencies? How well are we doing in filling some of those jobs?

As you know, that has been a major emphasis on the part of this committee, on a bipartisan basis, if you really wanted to see the act implemented, and that obviously means having qualified people in those positions. Where do we stand with that?

Mr. LADER. We are doing very well. As of discussions this morning, coincidentally, I have a new interest in personnel issues, I should say, in addition to financial management ones. In that context I believe we have three CFO positions where individuals have been identified, and there is current discussion and background work being done.

So we believe that very soon we will have all of those individuals, if not confirmed, certainly up for confirmation. We are making very good progress.

But as I have commented to this committee before, we have not been willing to compromise on the professional credentials of the individuals sought. This has been a very difficult recruitment effort. Lawyers and professors, for whatever reasons, often think that a stint in government is in their continuing professional self interest. Accountants, chief financial officers do not have the same view of the world.

And we have wanted to seek individuals who have extensive financial management experience, not simply those who would be learning how to read a balance sheet for the first time. That has complicated the recruitment process, but we are very close to closure on that.

Mr. CLINGER. I certainly applaud you in those efforts. I think there has been a strong feeling, in my own administration, we weren't giving the kind of emphasis to getting people that were really qualified to do the jobs. So the fact that you are making that a very high criteria for selection is very important.

We need to stress the professional qualifications of the people we put in these jobs, because they are the ones we are relying on to improve the performance of government overall.

Mr. LADER. If I might add, in those cases where there is not a CFO in place, we either have a strong deputy CFO currently in place, or an Assistant Secretary for management with some significant financial experience. So there is not a vacuum in the interim.

At the same time, I would agree with you, there is not the sustained single focus there should be until there is a true CFO in place, and we are close to closure on that.

Mr. CLINGER. Good. The suggestions, the very innovative suggestions you have made for franchise funds and innovative fund, obviously give the agency heads, it seems to me, a fair amount of discretion in how they will utilize those funds, and for what purposes.

What kind of protection do you have on accountability? In other words, how can we be assured that they are not going to go off the rails somehow? Is there going to be some sort of check and balance in how those funds would be administered?

Mr. LADER. There are long lists of checks and balances for that. One, as you are aware, any transfer, in the case of the franchise fund, to the franchise fund of certain equipment would require the approvals that you have identified.

There is a cap on the amount of funds which can be invested. For example, 4 percent of the revenues which the fund enjoys can be kept on a sustained basis in the case of the franchise fund.

In the case of both funds, 50 percent of an agency's unobligated balances at the end of the fiscal year may be transferred to the funds. This provides an incentive for agency heads and their management, those heading specific parts of the Departments and agencies, to eliminate unnecessary yearend spending. This feature is limited to the first 3 years of the funds' existence.

In addition to that, the budget review process through OMB would continue for these funds as it would for other activities of the agencies, and there are all the other disciplines through the inspectors general, through the CFOs, and the other oversight mechanisms.

So we believe that while this is an innovative approach to providing managers new tools for different sets of requirements of each Department and agency, there are built-in mechanisms to ensure that the funds were well spent.

Mr. CLINGER. I think the full implementation of the CFO Act would help ensure that, it seems to me.

Mr. LADER. Absolutely. The audited financial statement would capture that even more clearly.

Mr. CLINGER. Your legislation talks about the strengthening debt collection programs by allowing agencies to keep more money that they collect instead of returning it to the Treasury Department. You talked a little bit about your proposal to use more private-sector approaches in doing this.

Can you amplify that? In other words, how you are proposing to use private-sector debt collection efforts such as reports to credit bureaus and hiring private attorneys, et cetera? Is that going to be a major thrust of the effort to involve the private sector?

Mr. LADER. It is, but it is a last resort, and those pointing out that oftentimes private collection efforts result in a relatively small percentage of successful recoveries, one must recognize this is a last resort. So as a result of that, one tries to, at minimum cost to the government, secure the repayment of funds in traditional means.

But to give the agencies the authority to go at that last resort to the private collection route, we believe helps the process.

We have to be very careful that certain potential abuses of private collection practices do not occur, and therefore there are certain exceptions built into the legislation that would ensure that individuals receiving benefits, for example, social security benefits, would not be, "hounded," in private collection efforts.

At the same time, we believe this does provide just another tool so the agencies can look to a variety of tools to try to start improving the collection of these moneys owed the Federal Government.

Mr. CLINGER. Is the primary responsibility for implementation of all of the reforms that we are talking about in 3400, who is going to ultimately have responsibility for monitoring the implementation of these reforms? Is it going to be you? Is it going to be OMB or somebody else? Is it going to be delegated out to the individual Departments? Are we going to have a czar of reinventing government, or is it going to be diffused?

Mr. LADER. One of the common themes—I should say the central theme of the Vice President's study has been the need for more decentralization in the Federal Government. As I have pointed out to this and other committees, when you look at the sheer scale, the size of the Federal Government, the notion that one can have Kremlin-like guidelines that apply in every situation, or that you can have a single czar to oversee implementation of public management reform across more than 100 separate agencies, is bizarre.

Consequently, while the Vice President is both the symbolic and substantive leader of this reinventing government effort, there are those of us assisting him who will carve out specific areas. The Presidentially appointed Administrator of the Office of Federal Procurement Policy will be taking the lead in procurement policy. The Controller of the Office of Federal Financial Management will be taking the lead working on implementation and improvement of financial accounting systems. I could go on and on. The Office of Information and Regulatory Affairs will have the lead in expediting regulatory review. But all of this is being coordinated by the Vice President, and those of us at OMB, particularly the Director and I, are working closely with the Vice President and his staff in that regard.

Mr. CLINGER. What happens if in a given agency or Department there is a sustained resistance to the imposition of some of these reforms? Is there a way to resolve an impasse or disagreements within the government?

Mr. LADER. Are you suggesting that could happen?

Mr. CLINGER. It is just a wild possibility.

Mr. LADER. Well, certainly. When you take more than 800 recommendations, there are those which are the low-hanging fruit, and many of the proposals, not just in the legislation we are discussing today but in the companion piece as part of the entire gov-

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